

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS ANKARA 001442

SIPDIS

SENSITIVE

STATE FOR E, P, EUR/SE AND EB
TREASURY FOR U/S TAYLOR AND OASIA - MILLS
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A

TAGS: [ECON](#) [PREL](#) [TU](#)

SUBJECT: TURKEY'S ECONOMY MARCH 6 AM: MARKETS STABLE,
ERDOGAN HINTS AT BUDGET RELIEF FROM U.S. PACKAGE

Sensitive but unclassified, and not for internet
distribution.

[1](#)1. Summary: Turkish financial markets were flat during the morning of March 6, awaiting confirmation of their expectation that a new GOT, led by AK Chairman Erdogan, would deliver a U.S. financial package. Erdogan and State Minister Babacan, facing public complaints about the new taxes in the draft 2003 budget, hinted that a U.S. package would be used to ease fiscal restraints. End Summary.

Markets In Waiting Mode

[1](#)2. (U) On Thursday morning March 6, Turkish financial markets were flat. Turkish investors told us market expectations of a U.S. financial package continue, and underpin the current relative state of calm. Some foreign hedge funds sold off on Monday, March 3 (JP Morgan/Chase trader Gumisdis told us the house account sold off Monday in "stop loss" transactions.) But some amount of foreign hedge fund money is still in the market, given what some see as a large upside potential if the U.S. package does come through.

-- At mid-day March 6, Turkish T-bills were stable at 57 percent compounded (having strengthened 5 percentage points from March 4, but still two percentage points higher than Friday, February 28 close).

-- The lira was unchanged at TL 1,605,000 to the dollar.

-- The Istanbul Stock Exchange was up 0.2 percent in light trading in the morning.

Erdogan and Babacan Hint At
Budget Relief From U.S. Package

[1](#)3. (U) In separate comments to the press March 4 and 5 AK Chairman Erdogan and MinState in Charge of Treasury Babacan hinted that a U.S. package would be used to ease the fiscal measures announced by PM Gul on March 3.

-- On March 4, Erdogan spoke to journalists in Istanbul outside a court where he was giving testimony. Asked if a second parliamentary resolution would lead the GOT to revise its just released 2003 budget, Erdogan said (per Embassy's unofficial translation): "The draft budget, which takes into consideration measures needed under the current conditions, is the prepared budget. What would you do under extraordinary circumstances? You could provide a supplemental budget. If developments move in an optimistic direction, the government could make a surprise."

-- In a March 5 TV interview with Mehmet Ali Birand, Babacan was asked about Erdogan's comments. Babacan, according to the daily Milliyet March 6, replied that Chairman Erdogan's statements were consistent with GOT plans. The loan portion of the U.S. financial package would be used to restructure government debt. The grant portion, however, would be used to support current budget expenditures, he said.

[1](#)4. (SBU) Comment: IMF Resrep pointed to these press statements as evidence of his view that this government might

reluctantly agree with reform conditionality, but in practical terms it plans to use any U.S. package to get away from implementing the IMF program.

PEARSON